



## REVERSE MORTGAGE ADVERTISING AND DISCLOSURE REQUIREMENTS

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### REVERSE MORTGAGE ADVERTISING AND DISCLOSURE

Lenders that advertise and promote reverse mortgages in Connecticut must comply with federal regulations that:

1. prohibit deceptive and misleading product descriptions and advertising;
2. require specific advertising disclaimers and records retention; and
3. require specific disclosures, including those pertaining to the requirement that prospective borrowers receive counseling.

Some states, but not Connecticut, also have state-specific reverse mortgage disclosure or counseling requirements. Connecticut may wish to consider these requirements.

### ISSUE

How can Connecticut regulate reverse mortgages sold through television commercials by out-of-state loan originators or mortgagees (lenders)?

### SUMMARY

A "reverse mortgage," also known as a "home equity conversion mortgage," allows elderly homeowners to convert accumulated home equity into liquid assets. The loans are generally (1) paid to the borrower monthly or in lump sum and (2) repaid upon death or when the home is sold or vacated.

Out-of-state lenders that promote and sell reverse mortgages through television commercials must comply with federal and state laws that govern advertising, marketing, disclosure, and counseling requirements.

Under federal regulations, lenders who promote or advertise reverse mortgages that are to be insured by the U.S. Department of Housing and Urban Development (HUD) are (1) restricted from using HUD's or the Federal Housing Administration's (FHA) logo, seal, name, and acronym; (2) prohibited from using deceptive or misleading description and

advertising; (3) required to make certain advertising and marketing disclaimers; and (4) required to keep advertising and marketing material for two years.

Generally, lenders that promote or advertise reverse mortgages must also comply with state disclosure and counseling requirements. Connecticut does not have such requirements but may wish to consider the measures that other states have adopted. Maryland and Washington have state-specific disclosure requirements. Many states also have state-specific counseling requirements, which we summarized in OLR Report [2014-R-0271](#).

## **ADVERTISING AND MARKETING**

In the sale and promotion of reverse mortgages, federal regulations (1) restrict the use of HUD's or FHA's logo, seal, name, and acronym; (2) prohibit deceptive or misleading description and advertising; (3) require specific advertising and marketing disclaimers and records retention; and (4) impose sanctions on those who do not comply with these requirements.

### ***Use of HUD's or FHA's Logo, Seal, Name, and Acronym***

When advertising or promoting HUD-insured reverse mortgages, lenders must comply with federal requirements that pertain to the use of HUD's or FHA's official logo, seal, name, and acronym. Lenders are prohibited from:

1. using the FHA logo,
2. displaying the official HUD seal or any other insignia that imitates an official federal seal, and
3. using the HUD or FHA name and acronym to falsely represent that the lender's business or products originate from any federal, state, or local government or agency (see HUD [Mortgagee Letter 2011-17](#)).

### ***Prohibition on Misleading Product Description***

Federal regulations require lenders to (1) inform mortgagors (borrowers) of all available features of a reverse mortgage and (2) explain these features in plain language. Lenders are prohibited from misleading or otherwise causing a mortgagor to believe that a reverse mortgage product contains any features or limitations that are inconsistent with federal requirements (HUD [Mortgagee Letter 2014-10](#)).

### ***Prohibition on Misleading or Deceptive Advertising***

Federal regulations prohibit lenders from using any deceptive or misleading advertising or marketing materials in connection with the sale of HUD-insured reverse mortgages. Lenders are also prohibited from making any statement or

representation that could mislead a mortgagor about his or her rights under a reverse mortgage. Lenders may not state or imply that FHA or HUD has endorsed any of their products (HUD [Mortgagee Letter 2014-10](#)).

### ***Advertising and Marketing Disclaimer***

Lenders must include a disclaimer in all marketing and advertising materials that informs the public that HUD or FHA did not distribute or approve the material. Lenders must display the disclaimer in a conspicuous location (HUD [Mortgagee Letter 2014-10](#)).

### ***Retention of Advertising and Promotional Material***

HUD requires lenders to keep items circulated or used for advertisement, educational, or promotional purposes for two years. These items may be kept in electronic or print format and must be available to HUD upon request (HUD [Mortgagee Letter 2011-17](#)).

### ***Penalties***

Lenders are responsible for ensuring their branches, employees, and agents comply with all HUD and FHA requirements. Failure to follow HUD and FHA requirements may result in sanctions, including civil monetary penalties or administrative action (HUD Mortgagee Letters [2011-17](#) and [2014-10](#)).

## **FEDERAL DISCLOSURE REQUIREMENTS**

### ***Truth in Lending (Regulation Z) - Reverse Mortgage Requirements***

The federal Truth in Lending act and its implementing regulation (Regulation Z) have specific reverse mortgage disclosure requirements that lenders must provide to prospective borrowers. This applies to lenders who promote or advertise reverse mortgages in Connecticut. Under Regulation Z, a lender must provide the following information to a prospective reverse mortgage borrower:

***Notice.*** A statement that the consumer is not obligated to complete the reverse mortgage transaction merely because he or she has received the required disclosures or has signed an application for a reverse mortgage loan.

***Itemization of Pertinent Information.*** An itemized summary containing the loan terms and charges, the youngest borrower's age, and the property's appraised value.

**Total Annual Loan Cost Rates.** A good-faith projection of the total cost of the loan, done in a table that must be referred to as “the table of total annual loan cost rates.”

**Explanation of Table.** An explanation of “the table of total annual loan cost rates” that adheres to the model explanation provided in the regulation (12 CFR § 1026.33).

### **Disclosure of Reverse Mortgage Costs**

Under federal regulation, a lender must fully disclose to the mortgagor all costs of obtaining a reverse mortgage. The lender must (1) ask the mortgagor about any costs or other obligations he or she incurred to obtain the mortgage and (2) provide the required good faith estimate of the total cost of the loan.

A lender must clearly state to the mortgagor which charges are required to obtain the mortgage and which are not (24 CFR § 206.43).

## **STATE DISCLOSURE REQUIREMENTS**

We found two states, Maryland and Washington, that statutorily require lenders to make specific disclosures to prospect reverse mortgage borrowers. Connecticut may wish to consider these.

### **Maryland**

Maryland law requires a lender or person who arranges financing to provide a prospective borrower, upon receipt of a reverse mortgage loan application, a checklist, written in at least 12-point type, advising the borrower to discuss specific issues with a reverse mortgage counseling agency (MD. CODE, COM LAW § 12-1207).

### **Washington**

Under Washington law, a lender is prohibited from taking a reverse mortgage loan application unless the lender provides the loan applicant with a statutorily prescribed plain language statement , in conspicuous bold 16-point type or larger, advising the prospective borrower about the requirement to receive counseling before obtaining the reverse mortgage loan (WASH. REV. CODE § 31.04.530).

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